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C O N F I D E N T I A L SECTION 01 OF 02 BAKU 000502

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TAGS: [ENRG](#) [ECON](#) [PGOV](#) [PREL](#) [AJ](#)  
SUBJECT: AZERBAIJAN: STATOIL SAYS SHAH DENIZ PHASE TWO  
MARKETING CRUCIAL

REF: BAKU 464

Classified By: Ambassador Anne E. Derse, Reasons 1.4 (b,d)

¶1. (C) SUMMARY. Statoil Azerbaijan sees a decision by this summer as to who markets Shah Deniz Phase Two gas as essential to staying on schedule in developing this mega-field. In the face of increased demands from SOCAR for control over marketing of Phase Two gas (reftel), Statoil says that both it and BP agree that in any marketing arrangement for this gas, the Consortium's commercial partners "must be able to exercise control over the contract's administration." This desire flies in the face of the GOAJ's stated one to have the decisive voice in selling to Europe and in decision-making. Based on the latest results from SDX-04 exploratory well, Statoil officials cited probable annual production from Shah Deniz Phase Two as approximately 12 billion cubic meters. In contemplating possible purchasers for Phase Two gas, Statoil said the USG should not promote TGI and/or Nabucco over the Trans-Adriatic Pipeline, which Statoil believes is in many ways more commercially viable than those two projects. END SUMMARY

¶2. (C) On April 20 EnergyOff met with Statoil Azerbaijan Vice-President for Gas Jan Heiberg and Statoil Azerbaijan Government and Public Affairs Manager Sverre Olden Mala.

SHAH DENIZ II MARKETING  
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¶3. (C) Heiberg said that Statoil was in discussions with SOCAR Vice-President Elshad Nasirov concerning marketing of Shah Deniz Phase Two (SD2) gas. EnergyOff said it was his understanding that SOCAR was seeking greater control over SD2 marketing than it had under the arrangement with the Azerbaijan Gas Supply Company (AGSC) for Shah Deniz Phase One (SD1), in which Statoil was the marketer (reftel). Heiberg confirmed this understanding, saying that Statoil was seeking to find ways to increase the "negative control" SOCAR might have in SD2. However, he said that in any new arrangement for SD2, the commercial partners "must be able to exercise control over the administration of the contract," otherwise the companies would not risk their capital. He said that Statoil (25.5 percent of the Shah Deniz consortium) and BP (25.5 percent) were in agreement on this key issue. He said that a decision would have to be reached with SOCAR on this issue by summer 2007 in order to keep to the current timelines for SD2 production. Heiberg also pointed out that progress in commercial transit regime talks between Botas and the Shah Deniz Consortium, which have to occur in parallel with Turkish-Azerbaijan intergovernmental talks on this issue, can only start after the decision is made on how SD2

gas is marketed, which will in turn clarify potential customers and amounts.

#### SD2 PRODUCTION ESTIMATES

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¶4. (C) Heiberg said that current indications from SDX-04 exploratory well were that SD2 production would be approximately 12 bcm/a o/a 2012. When asked whether SD2 production could be 'fast-tracked' to 2010 vice 2012, Heiberg said that 2012 was in itself an ambitious target date, and that it would be impossible to envision SD2 production starting at 2010.

#### TRANS-ADRIATIC PIPELINE

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¶5. (C) Referring to the recently signed USG-GOAJ Energy bilateral MOU, Heiberg asked why TGI and Nabucco were explicitly mentioned, but not the Trans-Adriatic Pipeline (TAP). He said that from a purely commercial viewpoint, the TAP was in many aspects more desirable than TGI or Nabucco, and said that Washington should pay more attention to this pipeline.

¶6. (C) COMMENT: TO Statoil's mind, solving issues relating to marketing and (to Statoil's mind, more importantly) contract administration for the second phase of Shah Deniz development is essential for overall development to proceed on schedule. In a discussion last week with the Ambassador, Energy Minister Aliyev felt that the issue, although important, was one that was easily solved (upcoming septel). Embassy will follow up with BP to learn its take on this

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issue. END COMMENT.  
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